February 15, 2022

Kurlon Enterprise Limited: Ratings reaffirmed and outlook revised to Stable from Positive

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based - Cash Credit	25	25	[ICRA]A+ (Stable); Ratings reaffirmed and outlook revised to Stable from Positive
Non-fund Based	15	15	[ICRA]A1+; Reaffirmed
Total	**40**	**40**	

**Instrument details are provided in Annexure-1*

Rationale

The reaffirmation of the ratings takes into account Kurlon Enterprises Limited's (KEL) long and established presence as one of the largest players in the Indian mattress market, with a strong brand recall for its products. The ratings draw comfort from its diversified product portfolio across mattress categories and various price points, along with its widespread pan-India distribution network. KEL continues to maintain a strong financial profile, characterised by healthy cash accruals and negligible dependence on external debt, leading to comfortable debt protection indicators. As on March 31, 2021, KEL reported a Total Debt/OPBITDA of 0.12 times.

The rating outlook has, however, been revised to Stable from Positive on account of the continuing stagnation in revenues. The company's sales have contracted in each of the three years till FY2021, due to aggressive competition as well as the impact of the Covid-19 pandemic. Nevertheless, with KEL bringing back certain sales promotion schemes, the sales have grown by a healthy 12% in 9M FY2022, albeit at lower profit margins. It faces stiff competition from home furnishing start-ups, other branded players and the unorganised segment. The ratings are further constrained by the geographical concentration risk arising out of dependence on the southern market, which accounts for 40% of the total sales. KEL is attempting to diversify into other regions and expand the share of sales from other channels such as e-commerce. The ratings continue to be constrained by the vulnerability of the profit margins to fluctuations in input prices and movement in foreign exchange rates.

The Stable outlook reflects ICRA's expectation that KEL's long and established presence, strong brand recall and healthy financial risk profile will support stable credit metrics.

Key rating drivers and their description

Credit strengths

Established track record and strong brand recall in the Indian mattress industry – The Kurlon Group has an established presence as one of the largest organised players in the Indian mattress market, with a strong brand recall among its consumers.

Diverse product portfolio and strong outreach – The company has a strong network of more than 7,000 dealers, with further plans to expand to increase its geographical base. KEL has products across categories in the mattress segments and price points. It is also expanding its presence in the home furnishing and furniture segments.

Strong financial profile characterised by comfortable debt protection indicators – KEL continues to maintain a strong financial profile, characterised by healthy profit generation and low dependence on external debt, leading to comfortable debt protection indicators. As on March 31, 2021, KEL had an interest coverage ratio of 19.36 times and TD/OPBITDA of 0.2 times. Efficient working capital management policies and moderate capital expenditure levels, in line with the internal accruals generated, led to low debt outstanding. Further, the company reported cash and equivalents of Rs. 167.50 crore as of November 2021, with negligible leverage.

Credit challenges

Stagnation in revenues in recent years; profit margins to moderate in FY2022 – There has been stagnation in KEL's revenues due to stiff competition and the impact of Covid-19 pandemic. Nevertheless, with the company bringing back certain sales promotion schemes, the sales have grown by a healthy 12% in 9M FY2022, albeit at lower profit margins. Its profitability declined significantly in 9M FY2022 owing to increased selling costs and lag in passing on the increase in raw material prices to customers. The profit before tax (PBT) margin has dropped to 3.5% in 9M FY2022 from 11% in FY2021.

Exposure to geographical concentration risks – KEL's sales remain concentrated in the southern market, which accounted for about 40% of the total sales in FY2021. Nonetheless, the company is diversifying into other regions by increasing the output from the existing facilities in Gujarat and Uttarakhand. It also has plans to set up a new facility in Assam and Bhubnaeshwar.

Stiff competition in industry; vulnerability to raw material price movements – KEL's profit margins are exposed to fluctuations in input prices, which are mostly linked to crude oil prices. While the company has been able to maintain its profit margins in the past by increasing prices, it remains vulnerable to steep changes in input costs.

Liquidity: Strong

KEL's liquidity profile is strong, supported by healthy cash flows from operations, sufficient unutilised working capital limits and no term liabilities. Despite some moderation in internal accruals in FY2021 due to the pandemic-led disruptions, the accruals generated are expected to remain comfortable to meet all the funding requirements of the company. Further, in the absence of leverage and any major capex, it is expected to generate healthy free cash flows going forward as well. KEL had free cash and liquid investments of Rs. 167 crore as on November 30, 2021, in addition to Rs. 25 crore of undrawn fund-based working capital limits.

Rating sensitivities

Positive factors – ICRA could upgrade KEL's ratings if the company demonstrates significant and sustained improvement in revenue and profitability while maintaining healthy debt protection metrics and liquidity profile.

Negative factors – Negative pressure on KEL's ratings could arise in case of significant decline in revenues or profitability. The ratings may also be revised in case the company embarks on significant expansion, organic or inorganic, or extends incremental advances to group companies which results in deterioration in leverage, liquidity position or debt protection metrics.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Approach- Consolidation
Parent/Group Support	Not Applicable

Consolidation/Standalone	The ratings considered the consolidated profile of KEL and its wholly-owned subsidiary, Kurlon Retail Limited, based on the common business and financial linkages between the companies

About the company

KEL was incorporated in October 2011 as a 99.99% subsidiary of Kurlon Limited (KL). KL was incorporated in February 1962 as Karnataka Consumer Products Limited by Mr. T. Ramesh U. Pai. The company's name was changed to Kurlon Ltd. in 1995. In March 2014, KL signed a business transfer agreement with KEL, effective from April 01, 2014, to transfer the business division of mattress, foam, furniture and other products (including assets, liabilities, contracts and licenses) of the former, as a going concern, on a slump-sale basis to KEL. In consideration for the net assets taken over, KEL issued shares to KL. Under the agreement, all land and buildings (except the Gujarat plant) were retained by KL and all plant and machinery (except the Gwalior plant) were transferred to KEL. The core operations of the mattress, foam and furniture business are now carried out by KEL, and all the products manufactured by KL (through the Gwalior plant) are sold to KEL. In October 2015, KEL received a private equity investment of Rs. 90.0 crore from Motilal Oswal Private Equity Investment Advisors.

The Group has manufacturing facilities for rubberised coir in Yeswanthpur (Bangalore), Bhubaneswar and Gwalior; polyurethane foam manufacturing facility at Dabaspet (Karnataka), Roorkee (Uttarakhand) and Jhagadia (Gujarat); and spring manufacturing facility at Peenya (Bangalore), Jhagadia (Gujarat) and Bhubaneshwar. The Group has a strong distribution network with 7,000-plus dealers across the country and 1,500 exclusive retail stores.

Key financial indicators – Consolidated

	FY2020	FY2021
	Audited	Audited
Operating Income (Rs. crore)	987	783
PAT (Rs. crore)	75	30
OPBDIT/OI (%)	13%	13%
PAT/OI (%)	7.60%	3.81%
Total Outside Liabilities/Tangible Net Worth (times)	0.6	0.49
Total Debt/OPBDIT (times)	0.2	0.12
Interest Coverage (times)	13.6	19.36

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non- cooperation with previous CRA: Not applicable

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding * (Rs. crore)	Date & Rating 0n	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					February 15, 2022	January 08, 2021	November 08, 2019	October 29, 2018, October 23, 2018
1	Cash Credit	Long Term	25.00	-	[ICRA]A+ (Stable)	[ICRA]A+ (Positive)	[ICRA]A+ (Positive)	[ICRA]A+ (Positive)
2	Letter of Credit	Short Term	15.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

** outstanding as on December 31, 2021*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based –Cash Credit	Simple
Short-term – Non-fund based	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA’s website: www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	25.0	[ICRA]A+ (Stable)
NA	Letter of Credit	NA	NA	NA	15.0	[ICRA]A1+

Source: *Company*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure-2: List of entities considered for consolidated analysis:

Company Name	Ownership	Consolidation Approach
Kurlon Retail Limited	100%	Full Consolidation

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